

ELECTRICITY SHOPPING GUIDE

PREVIEW

Maine Public Advocate Office -- Volume 1, July 1999

CHANGE IN THE ELECTRIC POWER INDUSTRY

THE BASICS

Maine's electric utility industry is being changed. On March 1, 2000, Maine's electricity industry will be restructured, primarily to allow price competition for energy supply. Presently, your utility provides one-stop shopping for electricity by generating, transmitting and delivering power. Beginning on March 1, 2000, these existing electric utilities, CMP, Bangor Hydro, Maine Public Service and the smaller consumer-owned utilities, will still transmit and deliver electricity to customers using the existing poles and wires, but they will no longer generate the electricity. **The delivery service** will remain a regulated monopoly much as it is now, but the **generation, or supply**, of electricity will be deregulated and customers will be able to choose among various competitive providers.

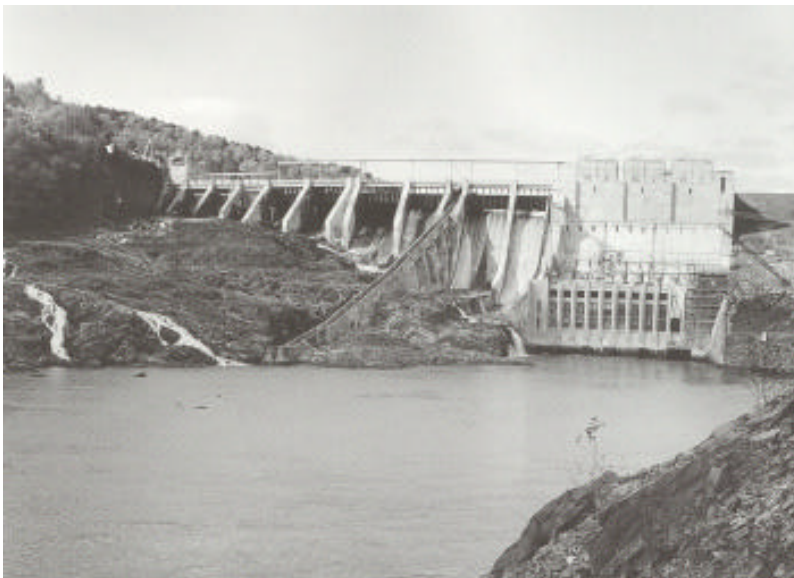
Why is this happening? The industry is being restructured primarily to allow **competition** to set prices for supply. For years, the federally regulated wholesale power market has been competitive. Also, in the last few years, Maine's larger retail electricity users, like the paper mills, have been allowed to shop for cheaper power. These changes inevitably led to the push to deregulate the entire power market. Thus, it will soon be possible for everyone to shop for power, individually or in aggregations of customers.

What are the benefits? The primary benefit to consumers is that power companies, not their customers, will bear the **economic risk** of poor decisions. The costs associated with the next poorly planned power plant will not be passed directly to customers. Another benefit is that customers will be able to choose a supplier based on price, fuel used, geographic location and other criteria. Assuming that vigorous competition develops, **customer choice** could have many benefits including efficient pricing of supply, cleaner air, and technical innovations on a par with those seen in the telecommunications industry.



Stranded Costs. Stranded costs are historic costs made uneconomic by restructuring. For over 80 years, generation costs incurred by electric utilities have been regulated and put into rates. Some of the obligations associated with these historic generation costs will last for years. Some of them represent generation costs that will be higher than the competitive market price that will be set by retail competition. Because many of these costs were specifically approved by the PUC as prudent, however, the State will allow them to be recovered by the surviving distribution utility. For example, much of Central Maine Power's electricity is generated pursuant to multi-year supply contracts with specified prices. These are the so-called NUG (non-utility generator) contracts. Many of these contracts extend beyond March 1, 2000. Where the contract price is higher than the competitively set market price, the difference is a stranded cost. These costs will be factored into your delivery rates and will disappear over time. The bulk of these costs should be gone by 2005. All of them are currently in electric rates.

The mechanics of choice. A competitive market needs informed customers who make active choices. Customers will become informed about the emerging retail electricity market in several ways. **Advertising** by suppliers has already begun, the first ad appeared in the Portland Press Herald on May 19th. If competition is vigorous, advertising will be pervasive. Because consumers may be skeptical about advertising claims, however, Maine will require suppliers to prepare **disclosure labels**. These will allow consumers to compare one supplier's claims against another in a meaningful way. Similar to the nutrition label found on prepared foods, these disclosure labels must follow a prescribed standard format. (See box on **uniform disclosure**, page 7) Armed with the information provided by suppliers in advertisements and the standardized information on the labels, consumers will have the information necessary to help them to choose a supplier. Customers who make no choices will be supplied through the standard offer (see page 3).



Green Power

The phrase “green power” is loosely used to describe power that, because of the way it is generated, does not cause pollution, or causes less pollution than other methods. Generally, renewable forms of generation such as wind, solar (photovoltaic), hydro and the burning of biomass (a by-product of the wood and paper industry) are considered “green”. So far, however, “green power” does not have a specific definition. You should therefore be wary of advertising that claims that you will be sold green power. It was in part because of the likelihood that such advertising claims would be confusing or untrustworthy that the uniform disclosure label requirement has been developed.

Renewable Portfolio Standard (RPS).

The Maine law requires all suppliers to demonstrate that 30% of their generation comes from renewable resources. (In recent years, approximately 50% of the power used in Maine has been from renewable resources, mostly hydro and biomass.) This RPS requirement will obviously allow all retailers in Maine to boast that they are selling green power. Environmentally minded consumers should look for products that contain a renewable percentage higher than 30%.

prices. Over the long term, however, competition among power suppliers should result in the lowest possible prices. One reason for caution is that only about one third of your current bill will be affected. Second, utilities will be allowed to charge you for some of their historic costs (See box on **Stranded Costs**, page 1). Finally, the market price for electricity will fluctuate with supply, demand and other factors.

What exactly is being deregulated? Only that portion of the industry involved with creating or generating electricity is being “deregulated”. Because competition in the delivery of electricity would be impossible without multiple sets of poles and wires running down our streets, this portion remains a monopoly that will be fully regulated by the PUC.

The new kids on the block: the suppliers. Competition will occur in the generation portion of the industry. Any competitor selling to retail customers will be required first to obtain a **license** from the Maine Public Utilities Commission. In order to obtain a license from the PUC, a supplier will have to demonstrate technical and financial ability to perform this important service. This is required in order to weed out unscrupulous “fly-by-night” operations. A supplier may be the actual owner and producer of generation, a middleman who purchases the output from wholesale generators for resale at retail, a broker who puts suppliers in touch with individual customers or an

Will prices be lower? The legislation creating these changes does not guarantee lower prices, and consumers should not expect lower

aggregator who negotiates with suppliers on behalf of groups of customers (see below). As of June 8, 1999, the PUC had received license applications from six entities, ranging from well-known national companies to local upstart entities to firms that seek to aggregate (see page 8). Five have already received a license. The PUC maintains a website indicating the name and status of these licensees (www.state.me.us/mpuc/licenses.htm). Wary consumers should verify before selecting that a supplier has been licensed. Consumers may check this website or call the Public Advocate's, (207) 287-2445, for such verification.

Aggregation. For small customers, the ability to obtain low prices may be limited. For this reason, aggregation is likely to be an attractive option. Simply put, aggregation allows small customers to pool their demand in order to obtain **bargaining power**. It will most likely occur first through affinity groups like small business associations, social organizations, municipalities and the like. An aggregator will negotiate with suppliers on behalf of customers, but each customer will then enter into her own business relationship with the supplier chosen. Small customers (residential and small business) are advised to be on the lookout for aggregation opportunities.

Standard Offer. Maine consumers are guaranteed power at competitive prices even if they **make no choice** in the market. This is accomplished through the standard offer. For each existing utility service territory, there will be a **competitive bid process** to determine which supplier(s) will serve the customers in that territory who do not make a choice. The supplier(s) with the lowest bid(s) will become the standard offer provider(s). There may be one or several for each territory, but customers will pay only a single price, blended if necessary, for this supply. Many expect that most customers will start out taking standard offer service. Because of bulk discounts, the standard offer price could be quite low. The standard offer bid process begins in August with final awards made on December 1, 1999. **Default power.** Any customer whose service with a competitive supplier is terminated will automatically receive service through the standard offer. A competitive provider cannot disconnect service for nonpayment; this can only be done by the standard offer provider in conjunction with the distribution utility and only in accordance with a regulated procedure.

Will it work? The success of retail choice in Maine relies on the establishment of vigorous competition. Two questions arise: 1) will there be enough suppliers to create meaningful price competition, and 2) will enough customers make informed and active choices? There are no guarantees; you can invite people to dinner, but you can't make them sit at the table. If for some reason,

too few suppliers decide to do business in Maine, there may not be enough activity in the market to afford sufficient choices to customers and to create the pressure on suppliers necessary to force efficient operations. On the other hand, if customers are not making active choices in the market, there will be no competition, even if there are plenty of suppliers in Maine and in New England generally. Much of the effort expended to date by State officials has been aimed at encouraging suppliers to come to Maine and educating customers so that they are likely to exercise choice. **Victim of our own success?** If the bids received in the standard offer auction are too low (in other words if the standard offer results in a really low price), the ironic effect may be to freeze out competition. Competitors will not bother to attempt to lure customers off the standard offer if the standard offer price is lower than the best price the competitor can offer. This is a known "risk", and one the State is currently willing to take. If this occurs, the Legislature has the ability to raise the standard offer in order to encourage greater competition.

Unknowns. There are several unknowns associated with electric restructuring. The most significant, and the key to success, is whether a competitive market will emerge. This in turn depends on the market price, the standard offer price and the ability and desire of customers to choose. Another is the pace at which competition develops in neighboring states with bigger markets. It may be that suppliers will only come to Maine when demand in the rest of New England reaches certain levels. Also, of course, with any large-scale industry restructuring, the number and magnitude of glitches in the new system is unknown.

One factor that will affect the extent of competition in Maine is the level of competition in other New England states.



Competition Elsewhere in New England. All New England states except Vermont have passed electric restructuring laws. **Connecticut** is phasing in retail choice over a six-month period from January to July, 2000. Customer choice in **Massachusetts** began in March of 1998 and has yet to produce a competitive market, mostly because standard offer service in that state is 1) provided by incumbent utilities not required to divest generation and 2) set by law at an artificially low price. **Rhode Island** has instituted retail choice for large customers and will allow all customers to shop once retail choice becomes available for 40% of New England-wide kWh sales. **New Hampshire** has recently announced a settlement of the lawsuit challenging its restructuring act. It is unclear when retail choice will begin. The **Vermont** Legislature has twice debated and rejected retail choice bills. It is currently considering another bill.

The distribution utility. Maine's existing utilities are vertically integrated.

That is, they generate, transmit and distribute electricity to customers. After

March 1, 2000, these utilities will no longer be in the generation business. What is left will be known as the transmission and distribution ("T&D") utility, sometimes called simply the distribution utility. These entities will continue to be monopoly providers **fully regulated** by the Public Utilities Commission. They will take on some new responsibilities, primarily associated with being the focal point for the transaction between customers and suppliers most of which will be invisible to customers. Distribution utilities are likely to do most of the **billing and metering** on behalf of suppliers, at least at the beginning.

I actually like my electric utility. Will I still be able to buy power from them? No. The law requires all the large investor-owned utilities to sell their generation assets. However, each will be able to set up an affiliated company that can enter the competitive power markets. However, because of the close relationship between the distribution utility with captive customers, and this new affiliate, there is significant regulatory control of the affiliate's activities including a requirement that it can only sell power to one third of the customers in its sister-company's monopoly service territory.

What if the power goes out? The Ice Storm of '98 laid bare our reliance on electricity. The same utility crews who worked to restore service during that storm will be responsible for doing so after restructuring. Remember that the transmission and distribution portion of the industry (not to be confused with the generation or supply industry) remains a monopoly that will be regulated by the Public Utilities Commission. This regulation governs not only price but also reliability. Remember also that when you have no power, the utility earns no revenues thus providing a powerful incentive to restore service.



What regulatory protections will remain? Full-scale regulation of the distribution utilities will remain in place, but competitive suppliers will be regulated by the PUC only through license requirements. In order to obtain the necessary license to sell retail power, a supplier must demonstrate that it has the technical and financial capability to perform these services, must post a bond or letter of credit, and must meet a variety of other requirements. **Terms and Conditions.** Customers who request service from a given supplier must be given a plain and complete description

of the service they will receive, its price, applicable termination procedures, a uniform disclosure label, and other information. Customers may rescind a request for service within 5 to 8 days of receiving this information. The manner in which the customer is billed for supply service is regulated so that bills must contain usage information, payment terms, the actual kWh rate applied to the energy purchase, the total charge, and a breakdown of various extra services (if any). Customers should be aware that when they switch suppliers, there will be special administrative charges billed by their distribution company, although it is possible that the supplier to whom they switch will cover those costs.

The Laws of Physics and the Laws of the State. When you arrange to buy power from a generator, the specific power from that generator can not be directed to your property to run your lights. Rather, it is sent into the **electricity grid**. There, because of the laws of physics, it simply exists and its use cannot be traced. An electron is an electron no matter what type of generator moves it into the grid. Thus your transaction with a power supplier will be a **paper transaction**. The supplier bills you, and you pay the bill; in between the supplier puts enough energy into the grid to match what you take out. The grid is like a **swimming pool**: power plants are like spigots that pour water in and customers are like taps taking water out. Between the power plant and the customer, everything mixes together in the pool. **Market signals.** This does not mean, however, that your choice of electricity supply has no effect on the market. For example, if you prefer to buy “green” power, which may be more expensive than other types of generation, your decision to buy “green” will send a message, in the form of your check, to the market. The more people who buy “green” power, the more likely it is that suppliers will decide to build “green” power plants instead of fossil fuel plants. So, even though your lights may not run specifically on hydropower, for example, your money would go to promoting the “green” power industry. That is how the paper transaction gets around the laws of physics.

Will I get calls at dinnertime?

Telemarketing would not exist if it did not work. It is thus very likely that firms selling electricity competitively will use telemarketing. However, people will be able to put their names on a “do not call” list at the PUC. Companies that call people on this list will risk fines or license revocation.

What if I don't like my competitive supplier? Depending on whether you signed a contract, and what the contract (if any) says, you may choose another supplier or elect to switch to standard offer service. If you have a contract, and it specifies a term, you may still wish to contact your supplier and attempt to renegotiate either the price or the term.

What if my supplier goes out of business? If your supplier suddenly goes out of business you will automatically be switched to standard offer service. If you receive some notice before termination, you may be able to choose

another competitive supplier or you could elect to take standard offer service. If you paid a deposit to the supplier, you will be able to recover that amount. Reimbursement may occur immediately, or, at the least, when the bond or letter of credit associated with the defunct supplier's license is liquidated and dispersed.

What happens if I can't pay my bill?

That depends upon whether or not you are a standard offer customer. A standard offer provider, as well as a distribution utility, can have your electricity disconnected for nonpayment. In order to do so, however, they must go through long-established procedures, which include the opportunity for you to arrange payment terms either directly with the company or through the PUC's Consumer Assistance Division. On the other hand, a competitive supplier can only terminate service (but not disconnect) in which case, you can switch to another provider or elect to receive standard offer service. If you do nothing upon termination, you will automatically receive standard offer service.

Will there still be a low-income bill payment assistance program? Yes. It is unclear at this point what form this program will take, but low-income programs will, by law, remain funded at least at their current levels. CMP currently operates a \$5 million program.

Is it true that my rates will include the cost of shutting down Maine Yankee? Part of it, yes.

Why is this so: isn't Maine Yankee now closed?

It is considered a stranded cost (see box on Stranded Costs, page 1) Construction of Maine Yankee was originally approved when the PUC determined that it was a prudent investment for the utilities to make. As a result, the costs of the plant have been passed through to ratepayers. Some of these costs are still in rates. The utilities began collecting for the costs of Maine Yankee's shutdown, or decommissioning, many years ago and have set aside these funds in a separate account. Because the utilities now expect decommissioning to cost much more than originally estimated they have sought more money from ratepayers. An agreement between the utilities and the Public Advocate, under which the utilities will recover only a portion of what they sought to recover, was recently approved in Washington. The amount to be included in rates as a result of this agreement is close to what it would have been if the original estimates had been accurate and if the plant had continued to provide service until the end of its license (2008). In other words, the amount to be included in rates as a stranded cost is considered prudent and in line with the original expectation of customers.

Is it true that I will someday be able to get phone, electric, cable and Internet service from one company?

A single company that provides electric, phone, cable and Internet is possible, and attractive to one-stop shoppers, though it would get the attention of antitrust officials. If a vigorously competitive market for electricity develops as a result of restructuring, there could be **any number of innovations** and changes. The first noticeable changes are likely to be associated with billing and metering services. For example, there are already meters in development that would allow a customer to turn lights or appliances on or off from a remote location using telephone or Internet commands.



Northern Maine. Most of Maine's electric system, or *grid*, is directly connected to the rest of New England and the country. **This is not true in Northern Maine.** Electricity customers of Maine Public Service, Houlton Water Company, Van Buren Power and Light District, and Eastern Maine Electric Cooperative are connected to the rest of Maine only through power lines that run through New Brunswick, Canada. It is thus a different market than the rest of Maine. Many of the restructuring-related technical problems associated with this situation have been addressed, though some remain. State and utility officials expect to address most problems by March 1, 2000, although certain requirements, such as the information verification necessary to support the uniform disclosure label requirement, may be difficult to establish by then. New Brunswick officials have been cooperative in helping to resolve these issues, most particularly by agreeing not to charge excessive transmission rates for power brought into or out of Northern Maine. Concerns remain about whether there will be full competition in this relatively small market.



Uniform Disclosure Labels. Maine will require suppliers to prepare disclosure labels that will allow consumers to compare one supplier's claims against another in a meaningful way. Similar to the nutrition label found on prepared foods, these disclosure labels must follow a **standard format**. Labels will have four categories of disclosure: price, contract terms, fuel source and emissions. A sample label can be seen below. A label must be given to a customer upon request, upon the initiation of service, and quarterly to customers who have taken service. Unfortunately, suppliers will not be required to include the label with advertising materials, so customers seeking to compare the labels of various offerings will have to request the label from each supplier they are considering. A supplier's website must contain access to its labels.

"SPEAKERS AVAILABLE"

The Public Advocate and his staff are available to speak to groups or organizations. If your group or organization is interested in learning more about rates and services of public utilities, utility mergers and market restructuring, or competition in utility services, please feel free to contact us.

ELECTRICITY SHOPPING GUIDE

March 1, 2000 is just around the corner! That is when retail choice for electricity begins. As the competitive market for power develops, we hope and expect that this Electricity Shopping Guide will be able to offer "apples to apples" comparisons of electricity suppliers' products and offerings in the competitive market, much like our Rate Watchers In-State Phone Guide does for in-state long distance services. This first issue is offered as a **preview** of the coming changes. If you would like to receive future copies of the Electricity Shopping Guide, please fill out and return the postage prepaid postcard.

THE FIRST SIGNS OF COMPETITION

As of June 9, 1999, the following companies have applied for licenses to sell electricity to retail customers.

Energy Atlantic, a Presque Isle company whose license was granted on May 10.

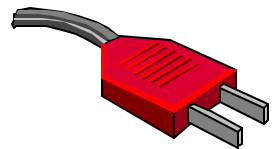
Energy Options Consulting Group, an aggregator/broker based in Wayne, Maine.
License granted June 2.

Enron Energy Services, Inc., a Houston company. License granted June 15.

Maine Power Options, a State agency authorized to sell to other State agencies and to Maine non-profit corporations such as schools and hospitals. License granted April 6.

PowerNet, Inc., a Portland aggregator/broker. License granted May 18.

Weil and Howe, Inc., an Augusta aggregator/broker. License granted May 18.



(An aggregator/broker collects customers and negotiates with suppliers on their behalf, but does not take title to or actually sell the electricity.)

If you wish to be placed on the mailing list for

ELECTRICITY SHOPPING GUIDE

FROM

THE MAINE PUBLIC ADVOCATE

please fill out this postcard and drop it in the mail. Once retail electric choice begins, we expect to be providing similar service to electric consumers in the ELECTRICITY SHOPPING GUIDE that we provide to telephone customers in our RateWatchers Guide.

NAME:_____

ST. ADDRESS/PO BOX:_____

CITY/TOWN:_____STATE:_____ZIP_____